

The Machinery for Economic Planning :

I. The Department of Economic Affairs

SIR ERIC ROLL, K.C.M.G., C.B.

Permanent Under Secretary of State, Department of Economic Affairs

THE PLACE OF GOVERNMENT IN THE ECONOMY

The Department of Economic Affairs has now been in existence for a little over a year, and has grown from nothing to an establishment of about 550. The very organization of a Department from scratch, its housing, staffing, the provision of office facilities in this short time represents a considerable achievement, the credit for which must go to the Whitehall machine which was able to cope with an order of this magnitude in a manner worthy of our most efficient industries. But much more significant is the fact that it has in this year established for itself an important place both in the government machine and in the development of national policy. The purpose of this lecture is to show how this has come about.

I do not think that I need dwell on the great increase in the last thirty years or so in the concern of government with economic matters, beyond its traditional regulatory activities. Long before the last war the idea of what nineteenth century German economists called the 'night watchman state' had already disappeared. Nevertheless, it is only in the last few decades that the full significance of the State's function in, and influence on, the economy has come to be widely appreciated. For example, excluding debt interest, but including so-called transfer payments, public expenditure accounts in this country for about 40 per cent. of the gross national product. In addition, all the other activities of government in the field of monetary and fiscal policy, regional development and labour market policy, to mention only a few, profoundly affect the behaviour of the private sector. Above all the acceptance by the Government of a major responsibility for employment and growth is now virtually beyond political dispute. Economic management by government, that is the rational organization and conduct of all the activities that affect the course of the economy is, therefore, inevitable. Its form and implementation have changed from time to time since the end of the war. Indeed, the attempt to provide a comprehensive and systematic framework so that the various functions of government in the economic field are carried out in a related way with the objective

of keeping the economy on an even keel, its resources fully employed, yet with inflationary pressures held in check, is a development of the last twenty-five years only. It would be an interesting study – though one which would deserve at least a whole lecture, if not a series of Ph.D. theses, to itself – to trace this development, both in the progress of economic theory – including the techniques of economic analysis and policy – as well as in the actual changes of organization of the machinery of government in this country. In particular, the period during which we had a central economic staff, first in the Cabinet Office, later in the Treasury, would deserve much closer examination than it has yet received in public. Broadly speaking, until last year the Treasury had carried the central responsibility for economic management. From the days of the transfer of the central economic staff to the Treasury under the Chancellorship of Sir Stafford Cripps, to the reorganization of 1962, about which Sir Richard Clarke lectured in a similar programme at the time,¹ runs a fairly clear line of development – though one of varying degrees of thickness if I may so express it, reflecting differing views of successive Governments on the need for a high degree of central economic management.

THE NEW RATIONALE OF PLANNING

What then has changed; how and why has the form which central management took after 1962, that is with the Treasury in the lead, been reformed in the last twelve months? This question, like all apparently organizational questions cannot be answered in our system of government, without some reference to the substance of policy. This is, therefore, delicate ground for a civil servant to tread in public; but this lecture would be pointless unless an answer is attempted. What seems to have been at the back of the change was a belief that fiscal and monetary weapons – the traditional instruments operating over the whole area of the economy – needed to be supplemented by others. This view may, in turn, have been associated with the fact that while mass unemployment had disappeared, and had even given way from time to time to excessive inflationary pressures, there were wide disparities between economic conditions in different parts of the country. Furthermore, the growth of industrial productivity was in general very significantly slower than that of our industrial competitors. Above all, the recurring balance of payment crises were increasingly thought to have their origin in structural deficiencies of the economy. Future historians of economic thought, as well as of public administration, may well see in the prominence given to the factors I have mentioned an interesting line of development, stemming from the final acceptance of the doctrines of Keynes. It is almost as if we had completed a cycle; and having become used to the notion that governmental economic management had

¹R.W.B. Clarke, 'The Formulation of Economic Policy', *Public Administration*, Spring 1963, Vol. 41, pp. 17-24.

to rely on the macro-economic analysis to which Keynes had introduced us, we began to realize its limitations and the need to add to it a more selective approach. It may be that as so often happen in the history of thought, the most radical new ideas tend after a few decades to become a new orthodoxy. It may have been a barely conscious realization that we were in danger of suffering from 'macroeconomicosis' – to which I am sure Keynes himself would have been immune – which led to the search for new, more selective, economic tools. It was a recognition of these wider problems, and of the possible techniques for dealing with them which had already led to the reorganization of the Treasury on functional lines carried out in 1962. It had also led to the setting up of the National Economic Development Council with its own office of economists and statisticians to draw together government, management and unions in a joint effort to secure faster and more steady economic growth.

The central theme, then, which I discern in these changes is the recognition of the need to make rational choices about the development of various sectors of the economy, and to devise policies which would operate on individual parts of the economy, in addition to the more traditional means for influencing the level of economic activity as a whole. This means deliberately and carefully working out priorities in the development of the economy within the resources likely to be available; endeavouring to ensure, for example, that productive investment in certain sectors will grow faster than in others. It also means reducing regional imbalances so that more resources are called into employment without giving rise to undue inflationary pressures.

THE DEPARTMENT OF ECONOMIC AFFAIRS

The work of the Department of Economic Affairs is the elaboration of this central theme. Our task, as I see it, is to co-ordinate the activities of the economic departments of government so that their decisions are consistent with the achievement of a faster rate of growth while avoiding inflationary pressures; and through our relations with both sides of industry to secure a wide acceptance of the need to change our approach towards those factors in our economic life which impede economic growth.

So defined, the purpose of the Department may be thought to be virtually co-terminous with government economic policy as a whole. What then is its specific role, as an institution in the Whitehall scheme of things?

Before answering this question, it may be as well to pause again to consider the position as it was before the D.E.A. was set up. A little over a year ago some of the Department's work was carried out by the National Economic Development Office, some by the Treasury, some by the Board of Trade, and some was not done at all. But N.E.D.O. was not responsible to Ministers, nor were the Government committed to carrying out its

proposals (even when these had been approved by the National Economic Development Council) for allocating resources and devising policies so as to produce faster growth. Indeed it may be doubted whether in the nature of things a system operating largely outside the government machine could ever have produced so comprehensive a statement of government policies contained in one document, including public expenditure programmes, as the National Plan. The present Government have taken the view that these are subjects on which the Government itself ought to formulate views to which it would then be committed. Thus, given that the Government is determined to undertake this responsibility, it remained to decide how it could best be discharged.

The Department of Economic Affairs can be said to have, in close collaboration with the other economic departments, notably the Treasury, 'responsibility for the management of the national economy as a whole. It must formulate the general objectives of economic policy in its totality and act as the co-ordinator of the policies of individual departments towards the achievement of these objectives. It, therefore, must be able:

- (i) to relate each department's activities and requirements to the general objective of national economic policy, to the prospective availability of economic resources, and to the total of claims upon them;
- (ii) to provide informed advice to departments, as partners in a joint enterprise, on all aspects of economic policy, and to help them to fulfil their departmental responsibilities efficiently and economically'.¹

The words I have just used are, substantially, a quotation from Sir Richard Clarke's lecture here some three years ago on the functions of the re-organized Treasury. Let me say at once that in using these same words, I am not making a 'takeover bid'! They happen to be extremely well chosen to define the function of overall economic management in so far as it is carried out by the Whitehall machine. Of course, neither the D.E.A. today, nor the Treasury three years ago could do this job by itself. All departments and particularly all economic departments, particularly the Treasury, the Board of Trade, the Ministry of Labour, the Ministry of Technology, the Ministry of Power, the Ministry of Transport, the Ministry of Housing and Local Government, the Ministry of Public Building and Works, and the Ministry of Agriculture are also involved.

THE DEPARTMENT OF ECONOMIC AFFAIRS AND THE REST OF WHITEHALL

The most important distinguishing feature of the Department of Economic Affairs is that unlike others, for example the Board of Trade or the Ministry of Labour, it has no executive responsibilities towards those

¹Ibid., pp. 20-21.

involved in practical terms in the problems with which it deals. The fact that the Department stands for the interest of the economy as a whole, that it has no executive functions, and that it has no narrow 'departmental' interest to defend has stood it in good stead. It has in particular enabled it to develop very close relations with both sides of industry both in the progress towards an agreed policy for productivity, prices and incomes, and in its work to improve industrial efficiency and productivity.

In terms of the Whitehall machine the Department of Economic Affairs tends to put the emphasis on questions concerning the use and development of physical resources, and hence to a great extent on longer-term problems. The Treasury on the other hand is mainly, though again not exclusively concerned with public expenditure, taxation and finance and, therefore, with shorter-term problems. But having said this, I must emphasize that both departments accept that economic policy is, and must always be maintained as, a unity; a rigid separation of the physical from the financial or of the short-term from the long is neither possible nor desirable. A very close working relationship with the Treasury is, therefore, absolutely essential, and I think the two departments may justly claim to have achieved this.

When I read press reports of division between the Treasury's insistence on financial stability and the D.E.A.'s pressure for faster growth, I am tempted to repeat what Mark Twain said when he was told of reports of his death: 'They are highly exaggerated'. Of course if there never were a dilemma between these two objectives of policy half the work of applied economics would become pointless and two-thirds of practising economists would lose their *raison d'être*. But the dilemma arises from certain facts in our economic circumstances; and when it comes to the fore, it is present in the breast of everyone concerned with these problems. In its partnership with the Treasury and other departments the Department of Economic Affairs has had something new to contribute. This feature, which I think is widely accepted, is that it has no 'sectional interest' to advocate. It is for this reason that it is ideally placed to ensure that the overall interests of the long-term development of the economy are allowed full weight in interdepartmental discussions leading to economic policy-making.

THE PLAN

It may seem paradoxical that I have talked so much about the philosophy underlying the machinery for economic planning with only a passing reference to the National Plan. Nevertheless, this logical priority is right. The preparation of the National Plan gives coherence to our work – in interdepartmental discussions, in work directly with industry, in improving the regional structure of the economy – by relating all the aspects together.

But the responsibilities of the Department are not co-extensive with the material contained in the Plan. We cannot confine ourselves to the period of five years ahead; we have also to look at policies in the intervening years; and, at the same time, we must also look further into the future than five years. It is true that the need to produce a document of this kind 'concentrates minds wonderfully'. It is, for example, interesting to recall that the closest we came to having a long-term plan in the immediate post-war period was when we had to produce a 'long-term programme' for the Organization for European Economic Co-operation in Paris. Nevertheless, we must not allow the preparation of a document for publication to become the be-all and end-all to the detriment of the evolution of short-term policies designed to attain the objectives chosen for the development of the economy. In the end, the Plan will only be as good as the policies which subserve its objectives.

THE STRUCTURE OF THE DEPARTMENT OF ECONOMIC AFFAIRS

I have dealt at some length with the general question of planning machinery; now I turn to a description of the staff and organization of the Department of Economic Affairs, and to a more precise definition of its work, showing how in fact the Department participates in the actual operations of government.

The Department has no executive responsibilities in the ordinary sense, and, as a result, is very small in total numbers: 544 on 1 October. This compares with 1,580 in the Treasury, itself a very small department, and 9,500 in the Board of Trade. More significant even than total numbers is the very high concentration of administrators, economists, industrialists and statisticians in the Department. Together they make up more than a fifth of the total establishment, as compared with an eighth in the Treasury and less than a twentieth in the Board of Trade. This staff structure gives to the Department its distinctive character, that of a small highly-integrated group working intimately with other departments and more or less wholly engaged in policy-making.

The Department is divided into five parts: two deal with Economic Co-ordination; the others respectively with Economic Planning, and with Industrial and Regional Policy. Broadly speaking the Economic Co-ordination Divisions lead for the Department in its operations in the 'Whitehall machine'; the Economic Planning Division organizes the preparation of the Plan; the Industrial Division is engaged on work to improve industrial efficiency in the context of the action set out in the Plan; and the Regional Division is concerned with policies designed to ensure that all parts of the country contribute to and share in rapid economic growth.

MACHINERY FOR ECONOMIC PLANNING: I. DEPARTMENT OF ECONOMIC AFFAIRS
ECONOMIC CO-ORDINATION

The Economic Co-ordination Divisions are supervised by two Deputy Under-Secretaries of State, one covering the co-ordination of policies affecting the domestic economy, and one concerned with the development of external economic policy. On the domestic front, for example, the Division is engaged in work on the economic effects of various aspects of fiscal policy, the expansion of agriculture, and the demands on the resources of particular industries, for example those on the crucially important construction industries. It works very closely with the Treasury in the planning of public expenditure within the context of the National Plan. Again this Economic Co-ordination Division generally represents the Department in inter-departmental discussions relating to fields where D.E.A. is not itself the department responsible for bringing a subject before Ministers, but where it has a very important part to play in ensuring that the overall interests of the economy are taken into account in the development of policy. Examples which spring to mind are policies for manpower, transport and housing. Of course none of these areas of policy is the preserve of any one Division of the Department, as you will, I am sure, readily appreciate; economists, industrialists and regional planners all have something to contribute.

One area of policy which deserves a special mention here is the Government's policy for productivity, prices and incomes, where the Economic Co-ordination Division has played the major part in advising the First Secretary of State. Here I believe the creation of a new Department with no sectional interest to represent, but concerned with the welfare of the economy as a whole, and which is not itself a major employing authority, has provided a remarkable opportunity for a fresh start in this most important field. The Department has been able to build up extremely close relations with both sides of industry which are complementary with those built up by the Industrial Division in its work to improve industrial productivity. I do not propose to discuss the development of prices and incomes policy or of policy in relation to productivity as such; I draw your attention to them only as outstanding examples of functions which the Department of Economic Affairs is specially fitted to perform by virtue of its position in co-ordinating and reconciling the economic interests of government, management, and unions.

PLANNING

The work of co-ordination on the external front is generally less in the public eye, and is perhaps not so obviously related to the preparation of the Plan. But U.K. strategy in external economic relations is of primary importance to the development of the economy, both in the longer term where U.K. interests in Europe, in the Commonwealth, and elsewhere

have to be balanced; as do the country's interests as an exporter of manufactured goods and as an importer of food and raw materials. This function includes of course our interests arising from our membership in E.F.T.A. as well as our relations with the E.E.C.

The work of the Economic Planning Division needs little further introduction. The Division, which includes most of the Department's twenty-four professional economists, manages the preparation of the National Plan, and provides a conceptual framework for the development of the economy within which detailed policies can be worked out. The key to the Division's work is the future allocation of resources as between for example public and private consumption, investment and exports to provide a basis for the planned growth of real incomes, a higher standard of social services, an improved industrial structure and above all a healthy balance of payments. Much of this work is done in the closest consultation with the Treasury. It depends for its success on the reconciliation of the short and long-term interests of the economy. Both day-to-day management and the longer-term developments of the economy are a continuous dialogue – or, perhaps better, a joint operation – between the Department of Economic Affairs and the Treasury.

RELATIONS WITH INDUSTRY

The appointment of a Chief Industrial Adviser, and of seven senior industrialists who are serving under him on secondment to the Department, represents an entirely new departure, at least in peacetime, in the Government's approach to its relations with industry. Their function is to ensure by direct contact that action is taken to make British industry more efficient and more productive. This, together with the increased competitiveness which may be expected to result from the prices and incomes policy, is the essential prerequisite for the more effective deployment of resources which the National Plan requires for the achievement of the growth objective.

The ways to increase industrial efficiency vary a great deal from industry to industry. There are, of course, common factors – the need for more investment, more efficient use of manpower, better management, and the abandonment of restrictive practices. The degree and form in which these problems present themselves differ widely. In some industries the outstanding problem is one of insufficient capacity to meet demand when the economy expands. There is, I think, widespread agreement now that one of the most serious disabilities from which our economy has suffered has been the fact that certain types of investment, for example in the chemical and machine-tool industries, declined so sharply in the 'stop' phase of the 'stop-go' cycle that subsequent expansion led, owing to the absence of adequate capacity, to a sharp increase in imports. In other

industries it is uneconomic production arising from insufficient standardization which is the main cause of inadequate competitiveness.

In order to assist the solution of these widely varying problems the Government are fostering, under the auspices of the National Economic Development Council, the creation of Economic Development Committees for individual industries. By the end of this year there will be about twenty of these committees – covering about two thirds of the private sector of industry – compared with nine at the beginning of the year. The role of these committees – which comprise representatives of management, unions, government and independent members – is to examine in detail the opportunities for growth and efficiency in their industries and to promote action to grasp them. The Industrial Policy Division of the D.E.A. seeks in the E.D.C.s the co-operation of industry in the implementation of the Government's industrial policies; and carries back from the E.D.C.s ideas and recommendations for government action which the Division follows up within the government machine. The Industrial Advisers who represent the D.E.A. on the E.D.C.s have been selected for their special experience and are therefore well equipped to take an active and positive part in establishing good relations with industry which are essential to the operation of the Government's industrial policies.

This can be illustrated by the joint work on the Industrial Sections of the National Plan. In the first place, the Industrial Division and the E.D.C.s played an important role in the Industrial Inquiry, both in the preparation of the questionnaire to industry, and later in the dialogues with each industry on its future prospects. Secondly, the Industrial Division will be working jointly with the E.D.C.s on follow-up action arising from the Plan to secure greater industrial efficiency, and will play its part in securing acceptance, both by individual industries and by the Government, of policies to promote standardization, rationalization, better management, more productive investment, and so on.

REGIONAL POLICY

The Department's work in the field of regional economic planning has been summarized by the First Secretary as being:

'First, to provide for a full and balanced development of the country's economic and social resources; and secondly, to ensure that the regional implications of growth are clearly understood and taken into account in the planning of land, of development – in particular of industrial development – and of services'.¹

As we have seen, a more balanced economic development throughout the country can contribute to faster growth in two principal ways. Of these the first is the advantage to our economic strength which could be secured

¹H.C. Deb., c. 1829, 10 December 1964.

by making use of the reserves of manpower in some regions and the modernization of industry in the old industrial areas of the nineteenth century. Secondly, there are also important advantages to be gained from a more even distribution of economic prosperity, which would counteract the inflationary effects of regional concentrations of excess demand, and thus facilitate the management of the national economy. It is a principal task of the Regional Policy Division, in co-operation with the Planning Division and the rest of the Department, to work out a specific programme of action to reduce regional imbalances.

First, the benefits to be gained by measures directed towards these objectives must be balanced against their cost, which is of two kinds: direct costs, such as financial incentives to industry and public investment in regional development, particularly in communications and housing; and indirect costs, such as may result from restriction of growth in the prosperous areas. Secondly, the nature of the measures required to stimulate economic activity needs careful examination. For both these purposes detailed economic analysis (for example of the effects on the industrial structure of the limitations of labour mobility) is needed. Some of these are being undertaken by the Department; but universities and other organizations are also being encouraged and offered financial assistance to initiate research projects.

As well as being concerned with regional policy as an aspect of economic management the Regional Policy Division has the task of co-ordinating the detailed work of regional planning. This involves co-operation with many other government departments, both in Whitehall and through the regional organization. This organization has been enlarged and strengthened by the appointment of Regional Economic Planning Councils and Boards about whose work Mr. Peterson will be speaking in the third of this series of lectures.

CONCLUSION

I have tried to set out the place of the Department of Economic Affairs as a central part of the country's machinery for economic management, and to show the kind of work it is doing. At the end of a lecture of this kind, the question is bound to arise whether the Department's work has been successful. A further question is whether the Department has made good use of the very wide variety of skill and experience, of administrators, industrialists and academic economists, which has gone to make it up.

Of course, a year's work is not much on which to come to a firm judgement. Moreover, much will depend on the view one takes of the progress of the economy itself. Some progress has undoubtedly been made towards the achievement of an effective policy for prices and incomes, and the Department may perhaps claim a share of the credit. The work of the Economic

Development Committees in helping different industries to develop ways of improving their efficiency, competitiveness and export performance is still at a formative stage. But, the Department has made a start on new action in fresh fields to correct structural weaknesses in the economy, to improve competitiveness and to increase productivity; and it is to action in these fields that we must look to provide the only solid basis for adequate growth with a viable balance of payments.

As far as this experiment in organization as such is concerned I would, at this stage, offer only a few remarks. In our system of government, perhaps more than in any other, organization is fashioned less by the dictates of its own logic, than by the desiderata of policy and by the personalities of those who make it, i.e. by Ministers. It follows from this, that in the end the 'machine' will always adjust itself to what Ministers want. Does this mean that no objective judgement can be passed? I think not. With due regard for the prudence which should always guide a public servant particularly in this borderland between the political and the administrative, I would say that the experience of the last twelve months has greatly strengthened the case for a small central co-ordinating economic department, one which has no major executive functions but which also has no sectional departmental interest to defend. In this respect, the D.E.A. is unique in Whitehall and if it did not exist it is my view that it would have to be invented in some form – for the function it performs will remain central to government for as far ahead as one can see.

The Department of Economic Affairs may be a curious looking animal among Whitehall departments, but I can honestly say that the experiment of putting together for this co-ordinating purpose of a number of disparate elements – administrators, economists, industrialists – has worked much better than I had dared hope a year ago; and to judge from what many of my senior colleagues in other departments have said it has worked much better than they had feared! It may not be until the end of the Plan period, in 1970, when we see how the economy itself has fared, that we shall be able to pass a definite judgement on the Department; at any rate I believe that any future machinery for economic management will be profoundly affected by the experience of this year. It is safe to predict that it will never again be what it was before October 1964.